Houlihan Lokey

Equity Capital Markets Update

2024 Year in Review

Introduction

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We are pleased to present you with our U.S.-focused Equity Capital Markets Update and review of the equity capital markets (ECM) activity for 2024.

ECM activity bounced back in 2024 after two years of historic lows but fell short of pre-COVID-19 levels. Issuance in 2024 was largely driven by follow-on and convertible offerings with IPO issuance higher than 2023 but still well below historic IPO averages.

U.S. equities sold off at the end of the year as investors took profits heading into year-end and the Fed indicated a more hawkish stance (higher for longer) than expected for 2025. Despite the sell-off, 2024 finished off strongly, with 2023 and 2024 being the best consecutive years of equity performance since 1997 and 1998. MAG 7 was the largest performer and most meaningful driver for this outperformance—MAG 7 stocks averaged more than 60% returns for 2024.

Research analysts' estimates, which are still showing growth, are more modest for 2025 as rates are expected to be a key driver for the market going forward. We anticipate continued momentum for ECM activity as the backlog of IPOs and LP liquidity demand directed at sponsors can push issuers to tap the market.

Key Takeaways

The steady ECM deal flow in 2024 was capped off with Q4 generating $90 billion in total proceeds raised, generating the most proceeds in a quarter since Q4 2021. The strong finish for 2024 was helped by Boeing's historic public offering, which raised more than $24 billion in primary proceeds through a concurrent follow-on and mandatory convertible offering, and Arthur J. Gallagher & Co.'s $8.5 billion primary offering.

IPO issuance bounced back from 2022 and 2023 but still remained below historic averages. Investors spent 2024 seeking businesses that demonstrated sustainable growth and profitability, which resulted in many IPO candidates delaying their launch into the market in order to present a more mature business profile.

Follow-on issuance bounced back even stronger with activity at historic averages and helped drive 2024 to be one of the more active years in the past 10 years. Issuers shifted their focus on raising primary proceeds to end the year with more than $47 billion in primary proceeds raised in Q4 alone. 2024 convertible issuance was a continuation of a strong 2023 for the product, with more than $87 billion raised in 2024, the third most active year since 2015. The popularity of convertibles among issuers has continued to rise as the increased use of mandatory and 0% coupon convertibles resulted in more favorable terms for issuers.

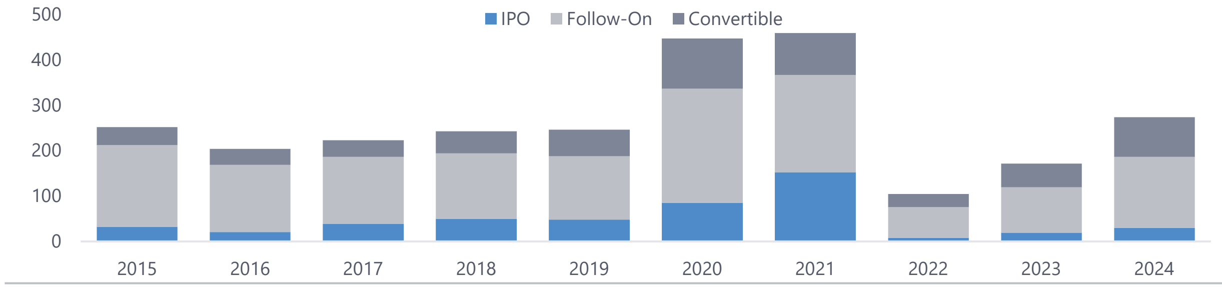
Market participants remain optimistic about ECM issuance in 2025. The forecasted lower returns for the broader market will hopefully push investors to seek alpha in the new issue market, along with an expectation of broadening sector participation, including consumer, industrial, and healthcare.

Source: Dealogic.
Note: 2024 U.S. IPOs above $50 million as of December 31, 2024, excluding SPACs and closed-end funds.

U.S. ECM Activity

Issuance by Product 2024 vs. Prior Years

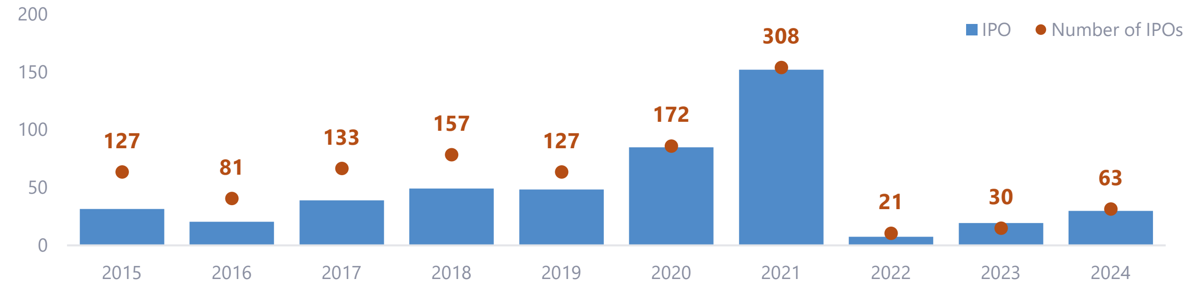
Proceeds Raised ($B)



- ECM volume for 2024 totaled $273 billion, eclipsing 2023's total of $171 billion. 2024 had the third-highest total proceeds raised across all products (IPOs, follow-ons, and convertibles) in the past 10 years.
- Convertibles made up 32% of total proceeds raised, the largest percentage of total proceeds in the past 10 years. IPOs made up 11% of total proceeds raised, the third lowest percentage in the past 10 years.

U.S. IPOs 2024 vs. Prior Years

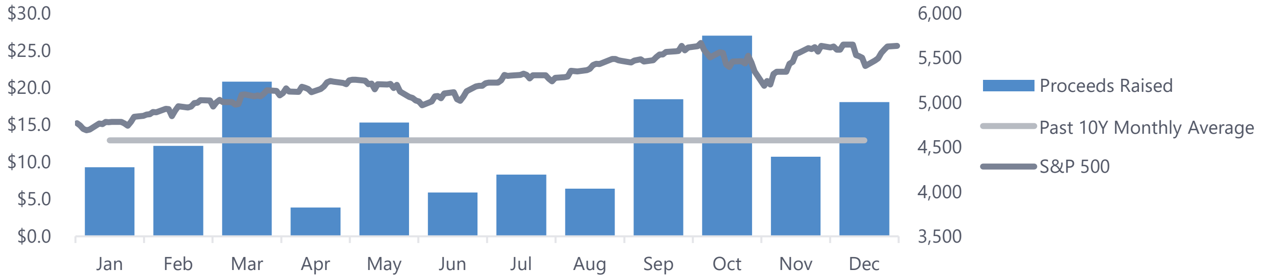
Proceeds Raised ($B)



- IPO activity noticeably increased with 63 deals priced in 2024, raising $30 billion, but remained well below the 10-year average. While IPO activity has not yet returned to pre-COVID-19 levels, market participants remain optimistic for 2025.
- The IPO market continues to favor more established, larger-scale companies but has shown signs of broadening, with higher-quality mid-cap issuers tapping into the market.

U.S. Follow-Ons 2024

Proceeds Raised ($B)



- Follow-on activity finished 2024 strong, with three of the last four months of the year raising more than the 10-year monthly average. There continues to be a focus on primary proceeds, with more follow-on proceeds raised in Q4 than in the first three quarters of 2024 combined.
- Despite the slowdown in secondary selling, liquidity for sponsors continues to be top of mind as pressure to provide liquidity to LPs and recycle capital is expected to increase in 2025.

Key Takeaways

U.S. ECMs had a solid 2024, with total proceeds raised only eclipsed by activity in 2020 and 2021. Activity across ECM products was mixed, with IPOs well below average, follow-ons at the 10-year average, and convertibles displaying a strong year.

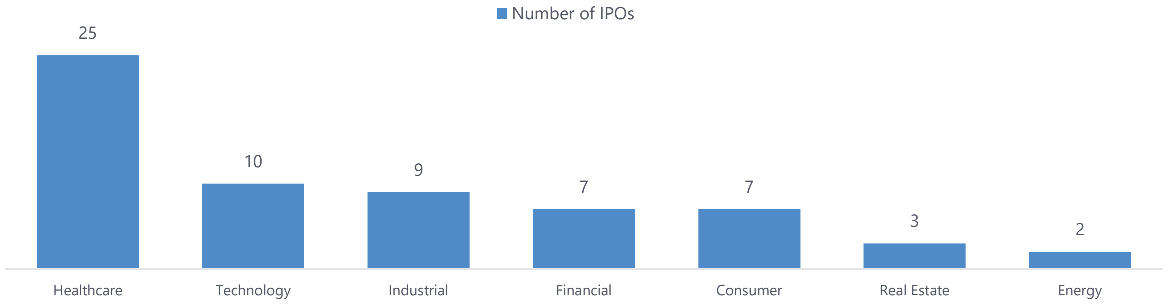
The noticeable increase in activity and IPO returns compared to 2022 and 2023, a relatively robust IPO pipeline, the potential for eventual lower interest rates, and less regulation have led market participants to be more optimistic about IPO issuance in 2025.

The strong finish to 2024, along with the increase in primary proceeds raised by issuers, indicates increased investor confidence going into 2025. Market participants hope for the momentum built in Q4 to continue into 2025.

Sources: Dealogic, S&P Capital IQ.
Note: U.S. ECM transactions above $50 million as of December 31, 2024, excluding SPACs and closed-end funds.

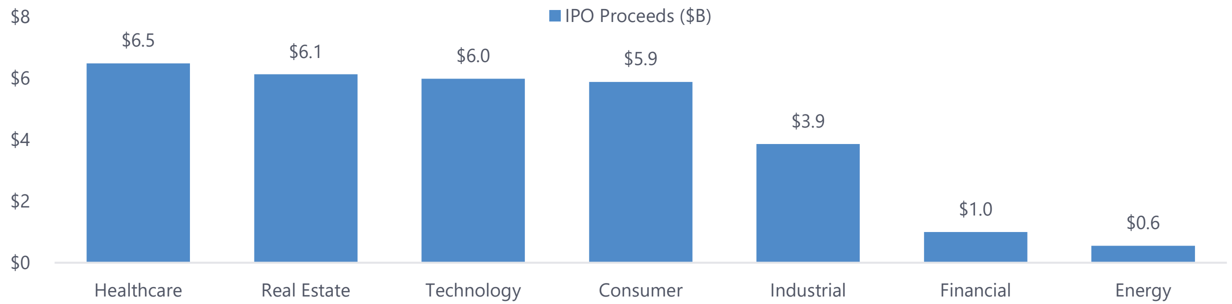
U.S. ECM Activity (cont.)

IPOs by Sector 2024



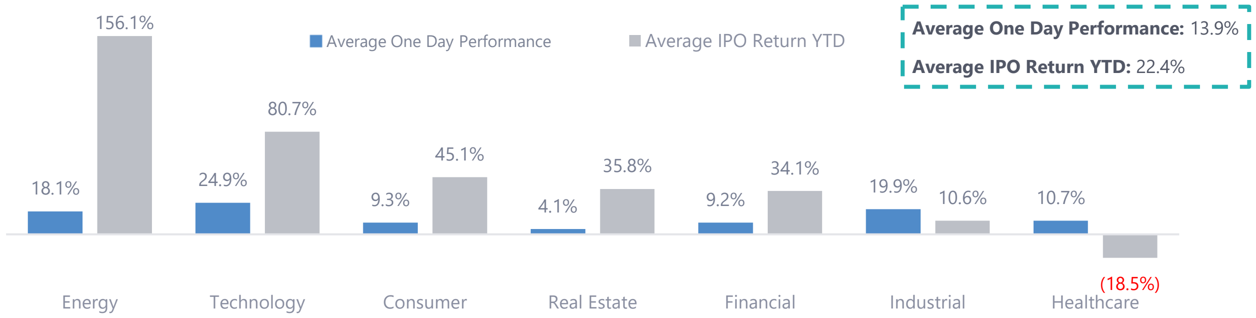
- Healthcare was the most active IPO sector in 2024, with more than double the number of IPOs as technology, which was the second most active sector.
- Less traditional sectors, such as industrial and financial, have gained IPO market share as investor preferences shifted to more established profitable companies.
- Technology's market share dropped significantly compared to historic levels.

IPO Proceeds by Sector 2024



- Large IPO transactions in the real estate and consumer sectors led to an outsized percentage of the IPO proceeds raised by sector.
- Technology historically makes up more than 45% of IPO proceeds raised but sharply declined to 20% in 2024.
- Real estate saw the largest increase in market share in 2024, driven by cold storage REIT Lineage, which priced the largest IPO of 2024 in July.

IPOs Performance by Sector 2024



- Technology proved to be the most consistent sector for IPO returns, while energy returns were driven by LandBridge's IPO YTD return of 280%.
- Healthcare IPOs continue to underperform despite comprising 40% of all IPOs (by number) in 2024.
- Financial and industrial IPOs produced more modest but consistent returns across transactions.

Key Takeaways

The shift in investor sentiment led to increased IPO market share for the industrial and financial sectors. Market participants are hopeful that a robust pipeline, in combination with an open IPO window for the technology sector, will help to drive a strong 2025.

The decline in market share for technology IPOs reflects the shift in investor sentiment toward issuers, demonstrating more sustainable growth and profitability as capital formation and funding move to more suitable sectors to meet investors' performance criteria.

IPO performance by sector ended 2024 mixed, with featured transactions outpacing the market. Investors took a selective approach to the IPO market with clear winners and losers for the 2024 IPO class. The performance of 2024 IPOs leads market participants to be hopeful for the Class of 2025 IPOs.

Sources: Dealogic, S&P Capital IQ.
Note: 2024 U.S. IPOs above $50 million as of December 31, 2024, excluding SPACs and closed-end funds.

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